

Montana Economic Development: Captive Insurance
HB 160

DEFINITION:

- The 2001 Legislature passed a law allowing captive insurance companies to operate in Montana.
- A captive insurance company is a specialized company established primarily to insure the risks of a parent company or members of an association.
- They serve the insurance needs of the parent organization or association without the uncertainties of commercial availability and cost.
- They provide an insurance alternative for businesses and organizations, which is particularly important in today's hard insurance market when companies are looking for options.

BACKGROUND:

- Captives do not interact with consumers in the same fashion as traditional multi-line companies so the State Auditor's Office has been able to create a streamlined regulatory environment for them.
- In Vermont, the first state to allow captives, it is a \$1 billion-a-year industry.
- Vermont added 16 new captives last year and boasted more than 800 captives at the end of 2008, from which it collects annual premium taxes of more than \$25 million.
- Currently, there are 35 captive insurance companies formed in Montana to license rural hospitals, nursing homes, fuel stations, commercial trucking firms, investment firms, medical professional firms, construction companies, and attorneys. In fiscal year 2009 Montana can anticipate collecting \$350,000 in premium tax from captive insurers domiciled here.
- Last year alone, 8 new captives formed in Montana.
- Long-term benefits to Montana include the potential for new jobs, an expanded tax base and increased economic activity.

PURPOSE:

- States like Montana facing increasing financial strain are targeting the insurance industry as a way to lure new business into flagging local economies.
- This bill will make Montana's captive market more attractive as a domicile for captive insurers looking to form here.
- It provides Montana a greater opportunity to develop its captive industry, and businesses and associations more options to tailor a captive to meet their needs.

BILL DETAILS:

- The passage of House Bill 160 will allow the Commissioner to waive Risk Based Capital (RBC) reports for new captive insurers during the first two years, in certain circumstances.
- Allows captive insurers to also write surety and marine insurance.
- Clarifies cap on premium taxes paid by a captive insurance company not to exceed \$100,000 in any year. This will allow Montana to be competitive with other domiciles in attracting large captive insurance companies to Montana. Specifically, Vermont and South Carolina have implemented caps on premium taxes collected and without this legislation there would be no reason for a large captive insurance company to locate in Montana.
- Prorates the minimum tax, depending on which quarter of the year a new captive is first licensed.
- Applies the laws related to dissolution and liquidation of an insurer to captives.
- By addressing captive issues during the current soft market, we put Montana in a favorable position to both hold onto organizations already domiciled here and bring in new companies when the market inevitably turns.

Committee SUPPORT:

- HB 160 was passed by the House Business and Labor Committee 18-0